

**IOSCO TRANSIT CORPORATION
AUDIT REPORT
YEAR ENDED SEPTEMBER 30, 2008**

IOSCO TRANSIT CORPORATION

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James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

November 11, 2008

Board of Directors
Iosco Transit Corporation
1036 N. Aulerich Road
East Tawas, MI 48730

I have audited the accompanying financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements of the Iosco Transit Corporation as of and for the year ended September 30, 2008, as listed in the table of contents. These statements are the responsibility of the Transit's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Iosco Transit Corporation, as of September 30, 2008, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 11, 2008, on my consideration of the Iosco Transit Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

MEMBER MACPA and AICPA

Page 2
Board of Directors
Iosco Transit Corporation
November 11, 2008

The management's discussion and analysis on pages 3-6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iosco Transit Corporation basic financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

A handwritten signature in cursive script, appearing to read "J M Anderson", followed by a stylized "CPA" or similar initials.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

IOSCO TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008

Using this Annual Report

Our discussion and analysis of the Iosco Transit Corporation's financial performance provides an overview of the Transit's financial activities for the fiscal year ended September 30, 2008. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Transit and present a longer-term view of the Transit's finances.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Transit:

- . The first two statements are financial statements that provide both long-term and short-term information about the Transit's overall financial status. These statements report information about the Transit, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Transit's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Transit's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities. This is one way to measure the Transit's financial health or position.
- . The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Transit as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Bus System as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and changes in Net Assets report information about the Transit, as a whole, and about its activities in a way that helps answer the question of whether the Transit, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Transit's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received and paid.

IOSCO TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

The two statements, mentioned above, report the Transit's net assets and how they have changed. The reader can think of the Transit's net assets (the difference between assets and liabilities) as one way to measure the Transit's financial health or financial position. Over time, increases or decreases in the Transit's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Transit you need to consider additional non-financial factors such as changes in the County's property tax base, the condition of the Transit's busses, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Bus System as Whole

The Transit's net assets decreased approximately 8%, or \$11,176, from \$144,021 to \$132,845 for the year ended September 30, 2008. The net assets and change in net assets are summarized below.

Net Assets

The financial position of the Transit is relatively the same as the prior year. Although the net assets decreased by \$11,176, the unrestricted portion increased by \$14,899 from \$23,434 to \$38,333. The overall decrease in the net assets can be attributed primarily to the lesser amount of capital and county grants received during 2008, increased fuel costs, and the continual depreciation of the fixed assets.

The net assets as of the year ended September 30, 2008, are as follows:

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 66,212	\$ 74,700	\$ (8,488)	(11.36)
Capital Assets	<u>94,512</u>	<u>120,587</u>	<u>(26,075)</u>	<u>(21.62)</u>
Total Assets	<u>160,724</u>	<u>195,287</u>	<u>(34,563)</u>	<u>(17.69)</u>
Current Liabilities	27,879	51,266	(23,387)	(45.61)
Noncurrent Liabilities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>27,879</u>	<u>51,266</u>	<u>(23,387)</u>	<u>(45.61)</u>
Net Assets				
Contributed equity	21,157	41,468	(20,311)	(48.97)
Invested in Capital Assets	73,355	79,119	(5,764)	(7.28)
Unrestricted	<u>38,333</u>	<u>23,434</u>	<u>14,899</u>	<u>63.57</u>
Total Net Assets	<u>\$ 132,845</u>	<u>\$ 144,021</u>	<u>\$ (11,176)</u>	<u>(7.75)</u>

IOSCO TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Charges for Services	\$ 81,214	\$ 66,584	\$ 14,630	21.97
Nonoperating Revenue				
Taxes Levied for Transit	103,366	97,515	5,851	6.00
State of Michigan Operating Grants	131,825	128,930	2,895	2.24
Federal Operating Grants	57,445	55,837	1,608	2.87
County Grants	3,792	-0-	3,792	100.00
Capital Grants	16,851	2,469	14,382	582.50
Interest	452	337	115	34.12
Gain on Sale of Fixed Assets	<u>-0-</u>	<u>10</u>	<u>(10)</u>	<u>(100.00)</u>
Total Revenue	<u>394,945</u>	<u>351,682</u>	<u>43,263</u>	<u>12.30</u>
Operating Expense				
Salaries and Wages	192,878	193,750	(872)	(0.45)
Fringe Benefits	31,034	28,226	2,808	9.94
Depreciation	42,926	56,861	(13,935)	(24.50)
Other	<u>139,283</u>	<u>109,408</u>	<u>29,875</u>	<u>27.30</u>
Total Operating Expense	<u>406,121</u>	<u>388,245</u>	<u>17,876</u>	<u>4.60</u>
Income (Loss)	(11,176)	(36,563)	25,387	69.43
Beginning Net Assets	<u>144,021</u>	<u>180,584</u>	<u>(36,563)</u>	<u>(20.24)</u>
Ending Net Assets	<u>\$ 132,845</u>	<u>\$ 144,021</u>	<u>\$ (11,176)</u>	<u>(7.75)</u>

IOSCO TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2008

Capital Asset and Debt Administration

At September 30, 2008, the Transit had \$94,512 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$26,075 or (21.62%) as follows:

	<u>2008</u>	<u>2007</u>	<u>Total Percentage Change 2007-2008</u>
Capital Assets Not Being Depreciated			
Land	\$ -0-	\$ -0-	0.00
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>0.00</u>
Capital Assets Being Depreciated			
Building	477,281	470,877	1.36
Vehicles	490,851	490,851	0.00
Equipment	<u>109,814</u>	<u>99,367</u>	<u>10.51</u>
Subtotal	<u>1,077,946</u>	<u>1,061,095</u>	<u>1.59</u>
Total Capital Assets	<u>1,077,946</u>	<u>1,061,095</u>	<u>1.59</u>
Total Accumulated Depreciation	<u>983,434</u>	<u>940,508</u>	<u>4.56</u>
Total Net Capital Assets	<u>\$ 94,512</u>	<u>\$ 120,587</u>	<u>(21.62)</u>

Please refer to the notes of the financial statements for more detailed information.

Economic Factors and Next Year's Budget

While Iosco Transit Corporation's (ITC) total eligible expense increased by \$17,876 in 2008 the revenue increased by \$43,263. \$9,192 of that increase in revenue was an increase in passenger fares.

During 2008 fuel prices continued to soar. However, by reviewing and managing the driver hours carefully, working with the community to determine when and where service is most needed, and obtaining a local grant to help fund the service needs, the ITC was not only able to stay within our budget; but, decrease the balance due on our line of credit by \$12,626 without raising passenger fares.

I fully expect 2009 to be a challenge with the uncertainty of both the economy and the amount of funding that will be forthcoming from the State and Federal Assistance Programs.

My goal for 2009 is to continue to work with community organizations to meet the needs of the public, seek funds where available and to make the public more aware of our services.

Pauline Ferns
General Manager

IOSCO TRANSIT CORPORATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

ASSETS

Current Assets:

Cash and investments	\$ 37,296
Accounts receivable	1,781
Grants receivable	<u>27,135</u>

Total Current Assets	66,212
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Property and equipment, less accumulated depreciation	<u>94,512</u>
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Total Assets	<u>160,724</u>
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LIABILITIES

Current Liabilities:

Accounts payable	7,814
Accrued payroll	5,851
Line of credit	<u>14,214</u>

Total Current Liabilities	<u>27,879</u>
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NET ASSETS

Contributed equity	21,157
Invested capital assets, net of related debt	73,355
Undesignated	<u>38,333</u>

Total Net Assets	<u>\$ 132,845</u>
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The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2008

Operating Revenues	
Charges for services	
Fare box and special fares	\$ 73,422
Package delivery	285
Vehicle maintenance	6
Advertising	<u>7,501</u>
Total operating revenues	<u>81,214</u>
Operating Expenses	
Salaries and wages	192,878
Fringe benefits	31,034
Materials and supplies	98,078
Services	9,002
Utilities	9,237
Casualty and liability insurance	11,925
Miscellaneous	11,041
Depreciation	<u>42,926</u>
Total operating expenses	<u>406,121</u>
Operating income (loss)	<u>(324,907)</u>
Non-operating Revenues (expenses)	
Property taxes	103,366
Federal operating assistance	57,445
State operating assistance	131,825
State and Federal capital grants	16,851
Local contributions	3,792
Interest/investment income	<u>452</u>
Total non-operating revenues	<u>313,731</u>
Change in Net Assets	(11,176)
Net Assets - October 1, 2007	<u>144,021</u>
Net Assets - September 30, 2008	<u>\$ 132,845</u>

The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION
STATEMENT OF CASH FLOWS
FOR YEAR ENDED SEPTEMBER 30, 2008

Cash flows from operating activities	
Cash receipts from operations	\$ 82,937
Cash payments for supplies and services	(137,661)
Cash payments for employee services and fringes	<u>(232,503)</u>
Net cash provided (used) by operating activities	<u>(287,227)</u>
Cash flows from noncapital financing activities	
Property taxes	108,867
Federal operating grants	57,445
State operating grants	<u>143,354</u>
Net cash provided (used) by noncapital financing activities	<u>309,666</u>
Cash flows from capital and related financing activities	
Federal/State capital grants	16,851
Purchase of fixed assets	(16,851)
Net decrease in line of credit	<u>(12,626)</u>
Net cash provided (used) by capital and related financing activities	<u>(12,626)</u>
Cash flows from investing activities	
Investment income	<u>452</u>
Net cash provided (used) by investing activities	<u>452</u>
Net increase (decrease) in cash and cash equivalents	10,265
Cash and Cash Equivalents - October 1, 2007	<u>27,031</u>
Cash and Cash Equivalents - September 30, 2008	<u><u>\$ 37,296</u></u>

The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION
STATEMENT OF CASH FLOWS
FOR YEAR ENDED SEPTEMBER 30, 2008

Reconciliation of operating income to net
cash provided by operating activities:

Operating income (loss) \$ (324,907)

Adjustments to reconcile operating income to net
cash provided by operating activities:

Depreciation	42,926
Decrease (increase) in accounts receivable	1,723
Increase (decrease) in accounts payable	1,622
Increase (decrease) in accrued liabilities	<u>(8,591)</u>

Total adjustments	<u>37,680</u>
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Net cash provided (used) by operating activities	<u><u>\$ (287,227)</u></u>
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The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The Iosco Transit Corporation is a nonprofit corporation under contract with the County of Iosco to provide public transportation to the residents of Iosco County. Its function is to carry out the terms of the public transportation service contract between the Michigan Department of Transportation and the Board of County Commissioners of the County of Iosco.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Iosco Transit Corporation conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

Financial Reporting Entity - The Public Transit is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this state requirement.

In accordance with accounting principles generally accepted in the United States of America and Government Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Iosco Transit Corporation. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Fixed Assets and Depreciation - Fixed assets are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method.

Inventory - Inventories are recorded as expenditures in the year of purchase. The amounts on hand at September 30, 2008 was determined to be immaterial and have therefore not been recorded on the books.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Capital - Prior to October 1, 2001, proceeds received from the State and the U.S. Department of Transportation, in accordance with contracts to purchase fixed assets were credited to Contributed Capital and were not recorded as revenue. Depreciation of fixed assets purchased with these funds is charged against Contributed Capital.

Property Taxes - Property taxes are levied as of December 1 of each year and are due by the last day of the following February. The taxes are collected by the local units of government within the County and are periodically remitted to the Transit through the County during the collection period. The taxes are recognized as revenue in the year in which payment is due.

NOTE C - VACATION AND SICK LEAVE

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation time does not accumulate from year to year except by mutual agreement between the Transit and the employees.

Sick leave is granted without pay upon application from the employee for illness or injury subject to the employer's right to request medical proof of disability.

The current portion of compensated absences benefits are recorded as expenditures.

NOTE D - CASH AND INVESTMENTS

The balance sheet at September 30, 2008 contained \$37,296 which was on deposit within various bank accounts. At year-end, the bank balance of these deposits was \$40,554. These deposits were 100% insured according to FDIC regulations.

Deposits are categorized into these three categories of credit risk.

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 37,296	\$ 40,554

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE D - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

The Transit Corporation has not adopted a policy that indicates how the Transit will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The Transit Corporation has not adopted a policy that indicates how the Transit will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Transit's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>Balance 10/1/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 9/30/08</u>
Building and Improvements	\$ 470,877	\$ 6,404	\$ -0-	\$ 477,281
Vehicles	490,851	-0-	-0-	490,851
Shop Equipment	46,386	9,357	-0-	55,743
Office Equipment	<u>52,981</u>	<u>1,090</u>	<u>-0-</u>	<u>54,071</u>
Totals	<u>\$1,061,095</u>	<u>\$ 16,851</u>	<u>\$ -0-</u>	1,077,946
Accumulated Depreciation	<u>\$ 940,508</u>	<u>\$ 42,926</u>	<u>\$ -0-</u>	<u>983,434</u>
Net Property and Equipment				<u>\$ 94,512</u>

The total depreciation expense for fiscal year ending September 30, 2008 was \$42,926. The eligible depreciation of \$815 (42,926 total depreciation less ineligible depreciation \$42,111) includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the Bureau of Passenger Transportation.

Useful lives of depreciable assets are as follows:

Buses & rehabilitations	3-10 years
Operations equipment	5-10 years
Garage equipment	3-15 years
Office equipment	3-10 years
Computer equipment	3-7 years
Building	4-20 years

NOTE F - STATE GRANTS

The Transit has contracted with the State of Michigan for grant funds for operations and equipment. All of the monies that the Public Transit is now eligible to receive have not been disbursed to them as the projects have not been completed. As of September 30, 2008, \$470,427 is still available to the Transit under those grants.

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE G - RISK MANAGEMENT

The Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2008 the Transit carried commercial insurance to cover all risk of losses. The Worker's Compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Transit. The Transit has had no settled claims resulting from these risks that exceeded their commercial coverage in the past two fiscal years.

NOTE H- CONTRIBUTED CAPITAL

The Contributed Capital equity account represents funds provided by the federal Government and State of Michigan, to the Transit, to purchase buildings, buses and equipment. Depreciation on buildings, buses and equipment purchased with State and Federal Funds is charged against this account. Depreciation of fixed assets purchased with Contributed Capital, for the same period was \$20,311.

Effective for fiscal years beginning after July 2000, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings. For the year ended September 30, 2008, \$16,850 of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of September 30, 2001 have not been restated, and will continue to be amortized over the lives of the related fixed assets, until entirely depleted.

NOTE I - PROPERTY TAXES

During 2001 the voters of Iosco County approved a countywide property tax levy of up to .1 mill to provide for the continued operation of the Transit Corporation. Net property taxes collected for the year ended September 30, 2008 were \$103,367.

NOTE J - COST ALLOCATION PLANS

Iosco Transit Corporation has one cost allocation plan for outside maintenance services where the methodology has been approved by the BPT. The cost allocation plan was adhered to in the preparation of the financial statements.

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2008

NOTE K - EXPLANATION OF INELIGIBLE EXPENSES PER THE BPT R&E MANUAL

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87.

NOTE L - NONFINANCIAL DATA

The methodology used for compiling mileage on Schedule 8 - Mileage Data is an adequate and reliable method for recording vehicle mileage.

NOTE M - CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the Transit agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Transit agency expects such amounts, if any, to be immaterial.

SUPPLEMENTAL INFORMATION

IOSCO TRANSIT CORPORATION
OPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE 1

Operating Revenues

Demand-response (farebox)	\$ 73,422
Package Delivery	285
Outside Maintenance	6
Advertising	<u>7,501</u>

Total Operating Revenues	<u><u>\$ 81,214</u></u>
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IOSCO TRANSIT CORPORATION
OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2008

	<u>Operations</u>	<u>Maintenance</u>
Labor		
Operators' salaries and wages	\$ 102,147	\$ -0-
Other salaries and wages	-0-	27,792
Dispatchers' salaries and wages	30,395	-0-
Fringe Benefits		
Other fringe benefits	20,864	4,130
Pensions	-0-	1,000
Services		
Advertising	-0-	-0-
Audit cost	-0-	-0-
Other services	1,568	1,613
Materials and Supplies Consumed		
Fuel and lubricants	72,215	-0-
Tires and tubes	-0-	6,381
Other materials and supplies	-0-	15,775
Utilities	-0-	-0-
Casualty and Liability Costs	9,171	-0-
Miscellaneous Expenses		
Travel and meetings	-0-	-0-
Interest	-0-	-0-
Lease/Rental	3,642	-0-
Other miscellaneous expenses	-0-	-0-
Depreciation & Amortization	<u>39,511</u>	<u>1,659</u>
Total Expenses	<u>\$ 279,513</u>	<u>\$ 58,350</u>

SCHEDULE 2

<u>General Administration</u>	<u>Total System</u>
\$ -0-	\$ 102,147
32,544	60,336
-0-	30,395
4,790	29,784
250	1,250
1,809	1,809
3,450	3,450
562	3,743
-0-	72,215
-0-	6,381
3,707	19,482
9,237	9,237
2,754	11,925
1,191	1,191
2,227	2,227
-0-	3,642
3,981	3,981
<u>1,756</u>	<u>42,926</u>
<u>\$ 68,258</u>	<u>\$ 406,121</u>

SCHEDULE 3

IOSCO TRANSIT CORPORATION
NONOPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2008

Local Operating Grants	
Millage	\$ 103,366
County Contributions	<u>3,792</u>
Subtotal Local Operating Grants	<u>107,158</u>
State of Michigan Operating Grants	
Formula Operating Assistance (Act 51)	131,041
R.T.A.P.	<u>784</u>
Subtotal State of Michigan Operating grants	<u>131,825</u>
Federal Operating Grants	
U.S. DOT Operating Grant - Section 5311	<u>57,445</u>
Subtotal Federal Operating Grants	<u>57,445</u>
State Capital Grants	<u>16,851</u>
Interest Income	<u>452</u>
Total Nonoperating Revenues	<u><u>\$ 313,731</u></u>

SCHEDULE 4

IOSCO TRANSIT CORPORATION
SCHEDULE OF CONTRIBUTED EQUITY
YEAR ENDED SEPTEMBER 30, 2008

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Balance, October 1, 2007	\$ 36,378	\$ 5,090	\$ 41,468
Deduct			
Depreciation on assets purchased from contributed equity	<u>(19,011)</u>	<u>(1,300)</u>	<u>(20,311)</u>
Balance, September 30, 2008	<u>\$ 17,367</u>	<u>\$ 3,790</u>	<u>\$ 21,157</u>

SCHEDULE 5

IOSCO TRANSIT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE GRANTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal and State Grantor/Pass-Through	Federal CFDA Number	Grant Number	Program Award Amount	Current Year Expenditures			Prior Year Expend- itures	Award Amount Remaining
				Total	Federal	State		
Passed Through Michigan Department of Transportation								
Operating Assistance - Section 5311	20.509	07-0233/Z3	\$ 57,445	\$ 57,445	\$ 57,445	\$ -0-	\$ -0-	\$ -0-
Federal Transit Capital Grants								
Capital Grant	20.500	02-0052/Z9	8,750	2,204	1,763	441	6,546	-0-
Capital Grant	20.509	02-0233/Z2	10,000	9,357	9,357	-0-	-0-	643
Capital Grant	20.513	07-0234/Z1	327,835	-0-	-0-	-0-	-0-	327,835
Capital Grant	20.509	02-0052/Z13	7,980	5,290	4,450	840	1,801	889
Capital Grant	20.513	07-0234/Z2	117,060	-0-	-0-	-0-	-0-	117,060
Capital Grant	20.509	07-0233/Z4	24,000	-0-	-0-	-0-	-0-	24,000
Total Capital Grants			495,625	16,851	15,570	1,281	8,347	470,427
Michigan Department of Transportation								
Non Urban Operating Assistance - Act 51 Current Year	N/A	N/A	131,041	131,041	-0-	131,041	-0-	-0-
Total Federal and State Grants			\$ 684,111	\$ 205,337	\$ 73,015	\$ 132,322	\$ 8,347	\$ 470,427

SCHEDULE 6

IOSCO TRANSIT CORPORATION NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS YEAR ENDED SEPTEMBER 30, 2008

	2007-0233/Z3 Federal <u>Section 5311</u>	State Operating <u>Assistance</u>
Expenses		
Labor	\$ 192,878	\$ 192,878
Fringe benefits	31,034	31,034
Services	9,002	9,002
Materials & supplies	98,078	98,078
Utilities	9,237	9,237
Casualty & liability	11,925	11,925
Miscellaneous	11,041	11,041
Depreciation	<u>42,926</u>	<u>42,926</u>
Total Expense	<u>406,121</u>	<u>406,121</u>
Less Ineligible Expenses		
Depreciation	42,111	42,111
Outside maintenance	6	6
Package delivery	285	285
Audit fees	3,450	-0-
Interest	452	452
R-TAP	<u>784</u>	<u>784</u>
Total Ineligible Expense and Project Revenue	<u>47,088</u>	<u>43,638</u>
Net Eligible Expenses	<u>\$ 359,033</u>	<u>\$ 362,483</u>
Maximum Section 5311 Reimbursement (16.0%)	<u>\$ 57,445</u>	
State Operating Assistance		<u>\$ 131,041</u>

Federal Section 5311 expenses are only those expenses incurred in providing service to non-urbanized areas. The State Operating Assistance is computed at 36.1508% of the current eligible expenses for the year ended September 30, 2008.

IOSCO TRANSIT CORPORATION
DETAIL OF INELIGIBLE EXPENSES AND REVENUES
SEPTEMBER 30, 2008

Depreciation

Depreciation accrued from assets funded by capital grants is considered ineligible in accordance with the Bureau of Passenger Transportation's Revenue and Expense manual.

Outside Maintenance

The Transit Corporation provides maintenance services in Iosco County. 100% of the revenue from these services was considered ineligible.

Annual Audit Fees

Any Transit Agency that expends less than \$500,000 in federal funds must subtract out the cost of the annual audit as an ineligible expense under Section 5311. Therefore, \$3,450 has been treated as an ineligible expense for Section 5311 purposes.

Interest Expense

Interest expense on short-term debt is ineligible to the extent of interest earned. Therefore, \$452 has been treated as ineligible.

Package Delivery

Revenues equal to expenses associated with package delivery are not eligible and are treated as ineligible in accordance with the Bureau of Passenger Transportation's Revenue and Expense Manual.

Capital Grants

Capital grant funds used to pay operating expenses are required to be treated as ineligible for calculating state and federal operating assistance. During the current year, the Transit did not have any of these type of expenses.

SCHEDULE 8

IOSCO TRANSIT CORPORATION
MILEAGE DATA - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2008

	Public Transportation Mileage
	<u> </u>
DEMAND RESPONSE	
1 st Quarter	40,423
2 nd Quarter	42,544
3 rd Quarter	46,144
4 th Quarter	<u>42,749</u>
TOTAL OPERATIONS	<u><u>171,860</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 11, 2008

Iosco Transit Corporation
1036 N. Aulerich Road
East Tawas, MI 48730

Dear Board:

I have audited the financial statements of the business-type activity and major fund which collectively comprise the basic financial statements of the Iosco Transit Corporation for the year ended September 30, 2008, and have issued my report thereon dated November 11, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Iosco Transit Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Iosco Transit Corporation's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

MEMBER MACPA and AICPA

Segregation of Duties

The idea of segregation of duties is that two or more persons are part of a process, such as cash disbursements, so that if a mistake is made by one, it will become apparent to another within a reasonable time period.

Currently, the Transit has one person in the bookkeeping staff who is responsible for writing cash receipts received by mail, writing checks, recording cash receipts, cash disbursements, payroll, bank transfers and adjusting journal entries as well as preparing bank reconciliations.

Monthly financial statements, conveyance of bank transfers and cash receipts deposits, and signing of checks are done by Management personnel or the Board of Directors.

With the limited bookkeeping staff, the Transit has an inherent weakness in the internal controls related to the bookkeeping functions. Segregation of these duties should be made on a practical basis.

Financial Statement Preparation

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Transit's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Transit has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Transit's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This condition was caused by the Transit's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Transit to perform this task internally.

A Control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Iosco Transit Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Transit's financial statements that is more than inconsequential will not be prevented or detected by the Transit's internal control. I consider the deficiencies described above to be significant deficiencies in internal control over financial reporting.

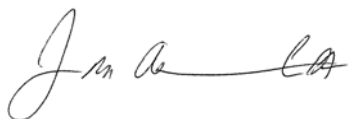
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Transit's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above I consider them to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iosco Transit Corporation's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and the Board of Directors and is not intended to be, and should not be used by anyone other than these specified parties.



JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT



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November 11, 2008

Board of Directors
Iosco Transit Corporation
1036 N. Aulerich Road
East Tawas, MI 48730

I have audited the financial statements of the business-type activity and major fund of the Iosco Transit Corporation for the year ended September 30, 2008, and have issued my report thereon dated November 11, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated November 10, 2008, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Iosco Transit Corporation. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Iosco Transit Corporation's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Iosco Transit Corporation are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the Iosco Transit Corporation during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

MEMBER MACPA and AICPA

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Iosco Transit Corporation's financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Iosco Transit Corporation, either individually or in the aggregate, indicate matters that could have a significant effect on Iosco Transit Corporation's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Iosco Transit Corporation's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Board of Directors
Iosco Transit Corporation
November 11, 2008
Page 3

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

James M. Anderson, PC
Certified Public Accountant